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Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554



In the Matter of	}
Amendment of the Commission's Rules to Establish New Personal Communications Services, Narrowband PCS	GEN Docket No. 90-314) ET Docket No. 92-100)
Implementation of Section 309(j) of the Communications Act - Competitive Bidding,) PP Docket 93-253)

To: The Commission

REPLY COMMENTS OF PAGING NETWORK, INC.

Respectfully submitted,
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Summary

Paging Network, Inc. ("PageNet"), by its attorneys and pursuant to 47 C.F.R. §§ 1.415 and 1.419, hereby replies to comments in response to the Commission's Further Notice.

The record in this proceeding makes it clear that the 1 MHz of reserve spectrum should not be released at this time. A majority of commenters, like PageNet, opposed the present release of the reserve spectrum. In the Further Notice, the Commission stated that releasing the reserve 1 MHz would: (1) facilitate competition; (2) open the markets to new entrants; and (3) allow existing narrowband PCS licensees to expand their systems. Commenters such as PageNet believe that the release of the 1 MHz at this time will not further, but rather will frustrate these goals.

In the previous rulemaking in this proceeding, PageNet and others urged the Commission not to adopt BTA service areas because these service areas did not realistically reflect the local wide-area service coverage required by most customers. Thus, PageNet agrees with the Commission and other commenters that the BTA service areas should be eliminated. PageNet does not, however, support the Commission's proposal to create larger than MTA service areas with the remaining allocated narrowband PCS spectrum. MTA service areas should be adopted because they represent the coverage area already required by the vast majority of paging subscribers. Licensing the remaining allocated narrowband PCS spectrum on an MTA basis would be the most efficient utilization of the spectrum because carriers will be able to: (1) offer local wide-area services; (2) achieve economies of scale without being saddled with area that goes beyond the geographic scope of a majority of messaging service offerings; and (3) provide opportunities to consolidate infrastructure resources among their operations in other service categories.

Special provisions for small businesses and rural telephone companies to acquire spectrum are not warranted for narrowband PCS. The Commission should consider that raising the ownership attribution limits allows large, well financed, carriers to have a small business front for them in order to acquire licenses at a discount. Moreover, discounts and bidding credits appear to allow some entities that are not truly viable communications providers to acquire spectrum over entities that are viable.

With the substantial public interest benefits of specific construction requirements, substantial service is not appropriate for narrowband PCS. The substantial service showing, if adopted, will encourage speculators to acquire and hold spectrum until the market is willing to pay them substantially more than they paid at auction. Construction requirements force the carrier to place the spectrum in operation, which provides competition and lower

prices for services. In addition, construction benchmarks create multiple service offerings.

Because partitioning could lead to abuse during and after the auction, PageNet recommends that the Commission not allow partitioning except for good cause shown on a waiver basis or until after the narrowband PCS licensee has fulfilled the second construction benchmark.

The Commission should stick to its established auction procedures, which recognized that the advantage of disclosing bidder information, including the identities of the bidders, outweigh the disadvantages of attempting to maintain confidentiality.

The paging response channels were allocated to provide existing paging carriers the ability to add mobile-to-base spectrum for use in their existing networks. Because a majority of paging networks ultimately will be operated on an MTA basis, the response channels, which were authorized to be used in conjunction with existing paging systems, should also be licensed on this basis.

Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

In the Matter of)	
Amendment of the Commission's Rules to Establish New Personal Communications Services, Narrowband PCS	GEN Docket No. 90-3) ET Docket No. 92-10)	
Implementation of Section 309(j) of the Communications Act - Competitive Bidding, Narrowband PCS) PP Docket 93-253)))	

To: The Commission

REPLY COMMENTS OF PAGING NETWORK, INC.

Paging Network, Inc. ("PageNet"), by its attorneys and pursuant to 47 C.F.R. §§ 1.415 and 1.419, hereby replies to comments in response to the Commission's Further Notice in the above-captioned dockets. In support of these Reply Comments, the following is respectfully shown:

I. The 1 MHz of Reserve Spectrum Should Not Be Released At This Time

The record in this proceeding makes it clear that the 1 MHz of reserve spectrum should not be released at this time. A majority of commenters, like PageNet, opposed the present release

¹ Further Notice of Proposed Rulemaking, GEN Docket No. 90-314, ET Docket No. 92-100 and PP Docket No. 93-253, released on April 23, 1997 (hereinafter "Further Notice").

of the reserve spectrum.² The parties that oppose the proposed release of the reserve spectrum have significant experience in the messaging marketplace and, for this reason, a great weight should be given to their opinions.

In the Further Notice, the Commission stated that releasing the reserve 1 MHz would: (1) facilitate competition; (2) open the markets to new entrants; and (3) allow existing narrowband PCS licensees to expand their systems. Commenters such as PageNet believe that the release of the 1 MHz at this time will not further, but frustrate, these goals. Those commenters that supported the release of the 1 MHz reserve provided no compelling justification for the release of the reserve.

Initially, it is important for the Commission to understand that the provision of services on licensed narrowband PCS spectrum has just begun. As of this date, only two narrowband PCS carriers, PageNet and Mtel, have begun commercial offerings, albeit on a limited basis, on narrowband PCS spectrum. It simply is not known how effectively narrowband PCS-based services will compete against other messaging services in the Commercial Mobile

² See Comments of: AirTouch Paging ("AirTouch") at 14-20; Arch Communications Group, Inc. ("Arch") at 9-10; American Paging, Inc. ("API") at 2-3; Celpage, Inc. ("Celpage") at 7-9; Conxus Communications, Inc. ("Conxus") at 15-17; MetroCall, Inc. ("MetroCall") at 6-8; Motorola, Inc. ("Motorola") at 7; PCIA at 8-11; Benbow PCS Venture, Inc. ("Benbow") at 5-8; and PageMart, Inc. ("PageMart") at 4-6.

 $^{^3}$ Further Notice at \P 34.

⁴ See Comments of Merlin Telecom, Inc. ("Merlin") and the Rural Telecommunications Group ("RTG"). Merlin is a consulting firm engaged in assisting companies in FCC auctions. RTG did not identify its members.

Radio Service ("CMRS") marketplace. Because narrowband PCS services have no track record and the original narrowband PCS carriers either have not begun service, or are at a relatively early stage of service roll-out, it is not clear that there is any concrete public-interest need to release the reserve 1 MHz of spectrum at this time.

In the CMRS marketplace, messaging services are subject to a significant amount of direct and indirect competition. Cellular carriers, broadband PCS carriers, Special Mobile Radio ("SMR") carriers, and even landline carriers all may offer some form of messaging service, including voice messaging and alphanumeric paging. In fact, the Commission has repeatedly found that the paging industry, a significant component of the overall messaging industry, is highly competitive. As such, no other service category is subject to as much intense competition from all facets of the CMRS industry. PageNet submits, and agrees with other commenters, that competition exists and is healthy in the messaging industry and that the immediate release of the 1 MHz reserve spectrum will not facilitate additional competition in the messaging marketplace.

In addition, the release of the 1 MHz reserve spectrum will have no impact on entry into the messaging marketplace. As noted above, messaging service may be provided on cellular, broadband PCS, narrowband PCS, 800 and 900 MHz SMR, paging, and 220 MHz

⁵ See Annual CMRS Report, 10 FCC Rcd 8844, 8867-68 (1995); In re Implementation of Sections 3(n) and 322 of the Communications Act - Regulatory Treatment of Mobile Services, Second Report and Order, 9 FCC Rcd 1411, 1468 (1994).

spectrum. In fact, the messaging marketplace appears to be the easiest to enter either through a core service offering or as a component of several services packaged together. In addition, significant opportunities to enter the messaging marketplace are forthcoming with the 800 MHz SMR, 220 MHz, and paging auctions, not to mention the auction for the remaining channelized narrowband PCS licenses. With so many licenses previously auctioned and to be auctioned, the current release of the 1 MHz reserve spectrum cannot be justified on the basis of opening the marketplace to entry. The messaging marketplace is already thriving and open to entry.

The Commission's goal of allowing narrowband PCS carriers to expand their systems actually will be frustrated by the release of the 1 MHz reserve at this time. As demonstrated by the commenters, services have just begun on a few narrowband PCS networks. The reserve was set aside for the future to enable the Commission to respond to the growth and development of specific narrowband PCS services and other future services, which is in the public interest. It may be some time before narrowband public demand for narrowband PCS services require carriers to expand their systems with new spectrum. It is simply premature to release the 1 MHz spectrum when there is no track record for narrowband PCS and, therefore, because the factors that would mandate the release of the spectrum are not currently present,

⁶ See Comments of: AirTouch at 19; Arch at 10; Conxus at 16; Motorola at 7; PCIA at 9; Benbow at 6; and PageMart at 5.

the release of the 1 MHz reserve may squander the spectrum for the future.

Finally, several commenters recommended that a study be conducted to ascertain the need for the release of the 1 MHz reserve. PageNet supports these recommendations. However, PageNet recommends that such a study should be initiated only after there is, in fact, data to study. As such, a meaningful study could only be conducted once a significant number of narrowband PCS carriers have initiated commercial service.

II. The Remaining Channelized Narrowband PCS Spectrum Should Be Licensed On An MTA Basis

PageNet does not support the Commission's proposal to create larger than MTA service areas with the remaining allocated narrowband PCS spectrum. In its comments, Morgan Stanley Partnerships warned of the destabilizing effect that modifying the current license allocations would have on the market. This is a significant warning from one of the country's premiere financial institutions and it should be heeded by the Commission. Carriers already have purchased nationwide and regional narrowband PCS licenses at auction based upon a valuation that

See Comments of: PageMart at 4-6; PCIA at 8-11; Conxus at 15-17; and API at 2.

See Comments of Morgan Stanley Partnerships. PageNet believes that the destabilization of which Morgan Stanley Partnerships warns would result if the Commission created new nationwide and regional licenses after having auctioned licenses with such service areas. This means that the value placed on the previously auctioned licenses would be diminished. PageNet submits that redefining the service areas for the BTAs to MTAs would not have this destabilizing effect because no MTA narrowband PCS licenses have yet been auctioned, and, as such, no value for MTA service area licenses have been set.

took into account the current allocation of nationwide and regional licenses. The creation of new nationwide and regional narrowband PCS licenses will have a destabilizing effect on the market because the valuations made by investors who ultimately funded the acquisitions of the licensed narrowband PCS spectrum will no longer be accurate. If the Commission creates such an unstable environment by reallocating spectrum into nationwide and regional licenses, which will have a detrimental effect on existing public investment in narrowband PCS licenses, the ability to raise capital for system build-out will be diminished significantly.

Moreover, the precedent that the Commission now contemplates, i.e., the reallocation of channelized spectrum to nationwide or regional licenses after conclusion of the auction for nationwide and regional licenses, may indicate to Wall Street that investments in wireless telecommunications carriers are too risky. To avoid what could damage significantly the ability of the telecommunications industry to raise capital, the Commission should understand its responsibility to the industry and the public and should not create additional nationwide or regional licenses after creating a limited number of such licenses. The Commission should also be cognizant of its responsibility as the nation's spectrum manager, and that its actions have significant

⁹ AirTouch pointed out in its comments that if the Commission reallocates the remaining channelized narrowband PCS spectrum to nationwide and regional licenses, the prices paid for those previous licenses at auction would become based upon an artificial scarcity created by the Commission. AirTouch Comments at 5.

impact on the ability of carriers to acquire the resources needed to provide service to the public.

Many commenters, like PageNet, supported the modification of the allocated but unlicensed narrowband PCS spectrum from BTA service areas to MTA service areas. 10 In the previous rulemaking in this proceeding, PageNet and others urged the Commission not to adopt BTA service areas because these service areas did not realistically reflect the local wide-area service coverage required by most customers. AirTouch, API, Conxus, and PCIA, like PageNet, all supported the reallocation of BTA service areas to MTA service areas only. MTA service areas should be adopted because they represent the coverage area already required by the vast majority of paging subscribers. In addition, MTAs are the coverage area that will be utilized for 900 MHz SMR and the geographic paging licenses. Clearly, then, licensing the remaining allocated narrowband PCS spectrum on an MTA basis would be the most efficient utilization of the spectrum because carriers will be able to: (1) offer local wide-area services; (2) achieve economies of scale without being saddled with area that goes beyond the geographic scope of a majority of messaging service offerings; and (3) provide opportunities to consolidate infrastructure resources, e.g., transmitting towers, among their operations in other service categories such as paging and SMR.

¹⁰ See Comments of: AirTouch at 3-4; API at 2; CelPage at 5-6; MetroCall at 4; PCIA at 5; and PageMart at 2. Some of these commenters supported MTA service areas in conjunction with other service areas.

III. Special Provisions For Small Business Or Rural Telephone Companies Are Unnecessary In Future Narrowband PCS Auctions

Commenters proposed several provisions aimed at assisting small business in future narrowband PCS auctions. These proposals included the relaxation of the ownership attribution limitations, bidding credits and installment payments, and even special provisions for rural telephone companies. PageNet submits that special provisions for small businesses and rural telephone companies to acquire narrowband PCS spectrum are not warranted, and is greatly concerned that special provisions will allow entities to acquire licenses at significant discounts without any compelling justification.

The Commission should consider that raising the ownership attribution limits allows large, well financed, carriers to have a small business front for them in order to acquire licenses at a discount. This allows the creation of small business fronts that purposely have little or no revenues, but with substantial access to capital, to receive discounts for licenses. A small business pasted on to the structure of a large communications company does not truly achieve small business entry into the marketplace. There is no justification for creating an environment in which small businesses with low revenues, but substantial access to capital receive discounts at auction. These entities and their affiliates are simply not the type of entities that require assistance in entering the marketplace.

¹¹ See, e.g., Comments of the RTG.

The result of the lessening of ownership attribution levels is significant discounts in the price paid for spectrum and a distortion of competition in the marketplace by the creation of a playing field that cannot be level. Competition cannot be open and fair if some carriers enjoy significant discounts for spectrum while others do not. Moreover, discounts and bidding credits appear to allow some entities that are not truly viable communications providers to acquire spectrum over entities that are viable. The recent revelations regarding the inability of some of the C-block winners to make installment payments is proof of this. As such, the utility of discounts and installment payments for future narrowband PCS are questionable. This is particularly so when messaging services historically have been defined by the ease of entry for small businesses.

Finally, with respect to rural telephone companies, there is simply no evidence reflecting the inability of such telephone companies from participating in the narrowband PCS auctions or from entering the messaging marketplace. Rural telephone companies may participate in the narrowband PCS auctions and in many respects already possess great advantages, including infrastructure equipment, over other would-be applicants, if they choose to participate. PageNet submits that no special provisions need be afforded to rural telephone companies in future narrowband PCS auctions.

IV. The Substantial Service Showing Should Not Be Adopted And The Construction Requirements Should Not Be Modified

Many commenters, like PageNet, opposed the adoption of the substantial service showing; several suggestions were made as to how the narrowband PCS construction requirements should be modified. 12 The substantial service showing, if adopted, will encourage speculators to acquire and hold spectrum until the market is willing to pay them substantially more than they paid This means that for year after year the spectrum is at auction. not utilized for service to the public, and its value inflates based upon a false scarcity that is created by the speculators holding the spectrum. Construction requirements require the carrier to place the spectrum in operation, which provides competition and lower prices for services. In addition, construction benchmarks create multiple service offerings. the substantial public interest benefits of specific construction requirements, substantial service is not appropriate for narrowband PCS.

Even with the modification of the substantial service definition proposed by Ameritech, 13 the ability to apply this standard fairly and legitimately simply does not exist. Any licensee could claim substantial service and leave the Commission to convince a court that the carrier is not providing substantial

See, e.g., Comments of: Arch at 17; Celpage at 11; Conxus at 11; PCIA at 13; and PageMart at 6-7.

¹³ Comments of Ameritech at 4.

service. This will further tie up spectrum and delay its ultimate use to provide service to the public. Because construction benchmarks provide certainty that the spectrum is utilized to provide service to the public, the current narrowband PCS construction benchmarks should be retained and the substantial service showing should not be adopted.

V. Partitioning Should Be Allowed Only On A Waiver Basis Or Only After The Geographic Licensee Has Met The Second Construction Benchmark

Some of the commenters in this proceeding supported the ability to disaggregate narrowband PCS spectrum. 14 Because partitioning could lead to abuse during and after the auction, PageNet recommends that the Commission not allow partitioning except for good cause shown on a waiver basis or until after the narrowband PCS licensee has fulfilled the second construction benchmark. If partitioning alleviated the responsibility to build-out under the geographic license construction requirements, partitioning may be used to avoid loss of an entire geographic license because the licensee could simply partition to a straw man that portion of the geographic license within which it did not build or cover the necessary area or population. As such, partitioning either by waiver for good cause shown, or after the construction requirements have been met for the subject geographic license, will provide licensees with flexibility without creating incentives to circumvent the auction and/or construction rules.

See Comments of: Celpage at 13; Merlin at 21; and MetroCall at 10.

VI. The Auction Rules Should Deter Speculation

PageNet agrees with those commenters that demonstrated that the narrowband PCS auction rules need modification to assure that speculators do not overrun these auctions and that all auction participants have equal rights and information regarding the auctions and other participants. To that end, the Commission should: (1) adopt an up-front payment requirement based on the total aggregate up-front payments specified for each of the licenses which the applicant identified on its short form application; and (2) provide all of the relevant information about each bidder, including the identities of each bidder, to auction participants.

Total aggregate up-front payments are necessary because the payment of a specific, reasonable amount of money for each license on which the applicant intends to bid enables the Commission to determine the bona fides of the applicants.

The Commission should also require and make available to all bidders all of the information currently required by the Commission's Rules, including the identity of bidders. A decision not to disclose the identity of all the bidders would

¹⁵ Comments of: PageMart at 8; and PCIA at 17.

In an auction where the spectrum is unencumbered, it is appropriate to allow applicants to make one upfront payment per market in which they wish to bid. This would allow the applicant to make one upfront payment per market and bid on all of the licenses in the market. Unlike markets that are already significantly encumbered, like paging frequencies where an incumbent licensee must acquire the geographic license that will allow it to expand its current same-channel operations, licenses for unencumbered spectrum, such as narrowband PCS, are equally fungible in a given market.

run contrary to all of the Commission's auction precedents, save one on which numerous petitions for reconsideration are pending. The Commission should stick to its established auction procedures, which recognizes the necessity of disclosing bidder information, including the identities of the bidders.

VII. The Response Channels Should Be Licensed On An MTA Basis And Only To Existing Paging Licensees

The paging response channels were allocated to provide existing paging carriers the ability to add mobile-to-base spectrum for use in their existing networks. The PageNet agrees with those commenters that supported the reallocation of the response channel to MTA service areas and the retention of the existing eligibility for such channels. One of the most compelling reasons to allocate the response channels on an MTA basis is that the paging geographic licenses will be auctioned on an MTA basis. Because a majority of paging networks ultimately will be operated on an MTA basis, the response channels, which were authorized to be used in conjunction with existing paging systems, should also be licensed on this basis. Those carriers that need greater than MTA-sized service areas for response channels may aggregate MTAs.

¹⁷ Amendment of the Commission's Rules To Establish New Narrowband Personal Communications Services, 8 FCC Rcd 7162, 7165 (1993).

¹⁸ See, e.g., Comments of: Arch at 12; Celpage at 12;
MetroCall at 9-10; and PCIA at 11-13.

In their comments, 19 Arch, Motorola, and PCIA opposed the use of the response channels for base-to-mobile operations. PageNet agrees with these commenters. At this time, with the current state of technology, there does not appear to be a base-to-mobile application that could operate within the current power limitations of these channels. Without a separate application, response channel spectrum must be used in conjunction with existing networks. As such, the Commission should retain the current eligibility of the response channel spectrum in order for existing paging systems to realize the benefits of two-way technology and create competitive offerings.

VIII. Conclusion

For the foregoing reasons, PageNet urges the Commission to stay the course established for narrowband PCS in its earlier decisions. Specifically, the Commission should continue to reserve 1 MHz of narrowband PCS spectrum to accommodate future growth and development of the services. In addition, the Commission should not adopt a "substantial service" test as an alternative to the existing construction requirements, should license the remainder of the initial 2 MHz of narrowband PCS spectrum on an MTA basis, should promote flexible use of spectrum

See Comments of: Arch at 11; Motorola at 8; and PCIA at 11.

by paging and narrowband PCS licensees, and should adopt an auction design consistent with that outlined by PageNet herein.

Respectfully submitted,

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